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Egypt and the EU: An Assessment of the Egyptian Euro-Mediterranean Partnership

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***Abstract*:**

When the Euro Mediterranean Partnership Agreement (EMP) between Egypt and the European Union came into force, it was the first regional agreement of this kind to involve north-south-south developing and developed countries. This type of regional agreements opened the door for many challenges facing the participating countries especially the developing ones. Therefore, this article is mainly concerned with a detailed assessment of the Egypt-Euro Mediterranean partnership Agreement through analyzing its objectives and instruments, providing an overview of the Egyptian EU economic relationship and the Egyptian economy's benchmark data and basic economic indicators before and after the EMP. This article also discusses the Egyptian trade structure before and after joining the EMP. From this analysis, we reach the conclusion that since the EMP entered into effect, intra and interregional trade and FDI flows have increased significantly for Egypt. However, Egypt's strong export growth and FDI inflows under EMP have not been translated into similarly strong economic and social progress. Indeed, the outcome of EMP has been disappointing with regard to key macroeconomic variables and social indicators. Since EMP came into effect, Egyptian GDP growth has been unstable. There is no evidence of accelerated change in the structure of production of the Egyptian economy since 1995; evidence shows that total employment has been the same since 1995, while the unemployment rate has been decreasing at a fairly low level.

Keywords: Euro Mediterranean Partnership Agreement (EMP), Egypt, GDP Growth, FDI flows
JEL Classification: F13, O24, O40

1- Introduction:

Egypt is an active participant in the Barcelona process and has signed an Association Agreement with the EU. Negotiations for this new EU-Egypt Association Agreement began in 1994 but were only concluded in June 1999, and the initialing of the text by both parties was delayed until February 2001. It was approved by the European Parliament in November 2001 and has been widely welcomed as a new phase in Europe's relations with Egypt.

When the Euro Mediterranean Partnership Agreement (EMP) between Egypt and the European Union came into force on 1 June 2004[1], it was the first regional agreement of this kind to involve north-south-south developing and developed countries[2]. Consequently, the main challenges facing Egypt in this context are: maintaining social and political stability, increasing employment; completing the process of economic transition; and consolidating its external relationships with Europe and its regional neighbors.

15 years have already elapsed since the establishment of this partnership agreement, and an assessment of this agreement's impact on the Egyptian economy and Egyptian inter- and intra-regional trade flows is highly important. This partnership agreement may have positive impacts on the Egyptian economy, as the elimination of duties on European inputs will reduce its price and will enhance the competitiveness of the manufacturing industries, reduce the cost of investment, accelerate the accumulation of physical capital and may generate productivity gains. On the export side, the partnership could secure the preferential market access granted to Egyptian products, the amount of foreign aid received by Egypt is expected to increase and the transition process will be easier.

[1]The European Commission's Delegation to Egypt in Cairo Website:
http://www.eu-delegation.org.eg/.
[2]Gavin, b., The Euro-Mediterranean Partnership An Experiment in North-south-south Integration. Intereconomics, 353-360,(November/December2005).

Nevertheless, negative effects may also arise, especially during the twelve year transition period, such as the risk of trade diversion; the Euro-Egypt agreement could impede further development of regional trade among Mediterranean countries. The import competing industries can be affected by the introduction of better quality and cheaper European products. Exports might not respond because of insufficient factor mobility, which would result in a deterioration of the trade balance, and lead to a possible exchange rate crisis. The government will face a major fiscal issue because it will lose a significant share of its tariff revenue, and increasing other taxes to balance the budget may produce contractionary effects[3].

To sum up, when Egypt enters into free trade area with the EU; it will enjoy a significantly more liberal trade regime in the years after the signing date. Yet the EMP poses a major challenge to Egypt to survive in this global environment and Egypt must withstand fierce competition in international and domestic markets. Therefore, in this article, we will try to analyze the EMP and its role in the Egyptian economy in seven sections: section two provides an overview of the evolution of the Egypt-EU relationships, section three discusses Egypt and the EU's production and trade, section four introduces the objectives and instruments of the EMP. Section five determines the effects of the EMP on the expansion of inter and intraregional trade and financial flows, section six identifies the Egyptian social and economic performance after the EMP, and finally section seven concludes the article.

2- The Evolution of Egypt-EU Relationships:

Egypt had strong economic ties with Europe; it had preferential access to EU markets through the generalized system of preferences (GPS) and through the bilateral cooperation agreement of 1977, the latter provides for economic co-operation between the parties, and establishes provisions for non-reciprocal trade liberalization and market access. This agreement, which was signed in Brussels, covers trade, economic, financial, social, and technical cooperation to contribute to Egypt's economic and social development. Although the agreement was for an unlimited period, it was dynamic and capable of continuous improvement; it had a contractual framework for making long term planning decisions. According to the cooperation agreement, Egyptian agricultural exports to the community benefited from

[3]Dessus, S. and Eisenmann, A., (1998)," Trade Integration With Europe, Export Diversification And Economic Growth In Egypt", OECD Development Centre, working paper No.135, june 1998 .

substantial tariff concessions, with the exception of a few sensitive items, all Egyptian industrial and raw material exports enjoy free access to the community market[4].

From the beginning of the 1990s, the EU started to think about replacing non-reciprocal preferences with developing countries in the Mediterranean with reciprocal ones in the form of bilateral free trade agreements. On the other shore, the Mediterranean would appear impervious to new partnership formulas designed to release it from the vicious circle of poor development and bring it into the mainstream of economic globalization.

Finally in 1995, the Barcelona conference gave rise to the Euro-Mediterranean Partnership agreement (EMP), which provided for greater interregional cooperation and the eventual completion of a Free Trade Area (FTA) between the EU and the Mediterranean countries. This far reaching integration process allowed European and Mediterranean partners to strengthen their political, economic, cultural, and human links.

To enhance the Barcelona Process, address its shortcomings, and to give expression to the impending enlargement of the EU (which included the accession of some of the original Mediterranean Partners), the New European Neighborhood Policy (ENP)[5] was launched in 2002[6]. ENP aims to share the benefits of the new enlarged EU (1 May 2004) with neighboring countries to the East and to the South in strengthening stability, security, and well-being for all concerned. It is designed to prevent the emergence of new dividing lines between the enlarged EU of 25 and its neighbors, and to offer them the possibility to participate in various EU activities, through greater political, security, economic and cultural co-operation. In the Mediterranean region, the ENP will concern 9 Mediterranean Partners (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Territories, Syria, and Tunisia), and will enhance the Barcelona Process[7].

[4]Delegation of the European Union to Egypt, available at: http://ec.europa.eu/delegations/egypt/eu_egypt/political_relations/index_en.htm (20.8.2010).

[5]European Commission, Communication from the Commission to the Council and the European Parliament. Wider Europe-Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors. COM (2003) 104 final, EU Brussels, 11 March 2003; European Commission, Communication from the Commission European Neighborhood Policy: Strategy Paper COM (2004) 373 final, EU Brussels, 12 May 2004; for the Policy's homepage see <europa.eu.int/comm/world/enp/index_en.htm>.

[6]Pardo, S. and Zemer, L. (2005), "Towards a New Euro-Mediterranean Neighborhood Space", European Foreign Affairs Review 10: 39 – 77.

[7]Euro-Mediterranean Partnership and MEDA Regional Activities, EURO MED information note, June 2005.

The Euro-Mediterranean Partnership was re-launched in 2008 as the Union for the Mediterranean[8] at the Paris Summit for the Mediterranean in July. This re-launching aimed to achieve a more dynamic association of European Union countries and their Mediterranean partners and to raise the political level of the strategic relationship between the EU and its southern neighbors.The Union endorsed the principles, values, and goals set out in the Declaration of Barcelona while offering more balanced governance, increased visibility to its citizens, and a commitment to tangible regional and trans-national projects.

3- EUs and Egypt's Production and Trade:

The economic characteristics of the members of an RTA and the characteristics of their existing international trading relations have an important bearing on which issues are likely to be important in assessing the role of the RTA in their trade strategy, the likely benefits and costs of the RTA, and possibly also on the likely balance between those benefits and costs. In this section we review indicators which shed light on the general extent and reach of this particular type of trade liberalization. For example, countries which have higher trade to GDP ratios (i.e. trade as a proportion of GDP is high) are more likely to see larger economy-wide effects from liberalization than those countries where trade occupies a smaller share of GDP. Hence, this ratio can serve to gauge the possible pass-through effect of liberalization. GDP per capita, value added structures as percentages of GDP, population, terms of trade balance, trade openness, countries have quite high openness indices suggesting that changes in trade patterns, as a result of trade liberalization, could have important impacts on the overall performance of the economies concerned. Therefore the aim of this section is to give an overview of the underlying patterns of production and trade for EU and Egypt, with special attention given to the nature of bilateral trade. In doing so, we also offer a description of the status of the Egyptian economy before joining the EMP.

3-a) Basic Economic Indicators of the Egyptian Economy, 1995:

In 1995, Egypt had a 2.4% real GDP growth rate, 8.3 % inflation rate, 9.6% unemployment rate and 1 % investment growth rate. From 1994 onwards, the trade deficit has been steadily expanding due to increases in the quantity of imports that outweigh the improvement Egypt had witnessed in its terms of trade for some years.

[8]European Union External action available at: http://www.eeas.europa.eu/euromed/index_en.htm (20.8.2010).

Egypt was a fairly open country, with exports and imports amounting to 22 % and 26% of GDP respectively in 1995. The main exporting sectors are services that include the revenue from the Suez Canal and tourism, and the petroleum industry (accounting respectively for 53 and 15 per cent of total exports). Textiles lag behind, representing 11 per cent of total exports. This export pattern is of concern for long-run growth. First, it relies on resources that are broadly considered as exogenous or risky[9]. Traffic on the Suez Canal cannot grow forever, and the supply of oil is determined by the amount of reserves in the long run. In the absence of new petroleum discoveries, the oil rent should decrease dramatically in the coming years, while the revenue from the Suez Canal will decline[10]. Second, there are few linkages with the rest of the economy, with only 6 per cent of labor employed in these oil-related sectors. Lastly, the overall export level is too low, compared to imports.

Table 1: Basic Economic Indicators of the Egyptian Economy

	1990-95	1995-2000	2000-05	2005-07
GDP growth (annual %)	3.8	5	3.2	6
Inflation, GDP deflator (annual %)	13.2	5.4	6	8.6
Unemployment, total (% of total labor force)	10	8.5	10	10.3
Foreign direct investment, net inflows (% of GDP)	1.3	1	1	8

Source: authors' calculations of averages based on data drawn from World Bank, World Development Indicators, 2010.

[9] RIORDAN, E.M., U. DADUSH, J. JALALI, S. STREIFEL, M. BRAHMBATT and K. TAGAKAKI (1998), "The World Economy and its Implications for the Middle East and North Africa, 1995-2010",in Prospects for Middle Eastern and North African Economies, N. Shafik (ed.), Macmillan Press for the Economic Research Forum, London.
[10] WORLD BANK (1997), "Egypt: Issues in Sustaining Economic Growth", Arab Republic of Egypt Country Economic Memorandum, March, Washington, D.C.

Most MPCs show high openness indicators despite high levels of protection in some countries, suggesting that liberalization could have significant economy-wide effects because pass through effects can be broad. Despite the relative moderate average annual rate of growth of the Egyptian exports[11], it remained the country with the weakest performance in terms of preserving its market share in the EU market among the sample shown in table 2.

Table 2: The Egyptian market share in EU markets compared to some other SMPCs.

	Market Shares in EU Markets		
	2000	2004	2007
Algeria	0.631	0.54	0.43
Egypt	0.341	0.301	0.291
Morocco	0.752	0.743	0.724
Tunisia	0.739	0.834	0.793

*imports from country/total EU imports

Source: Euro Stat, 2010.

The EU is a major trade partner of Egypt, accounting for 46 % of its exports and 39% of its imports[12]. Exports to Europe are more diversified than any other Egyptian exports: textiles are as important as oil and there are some exports ofequipment goods and agricultural products. The geographical pattern is more diversified on the import side. The EU and the rest of the world are competing in Egypt for most products, in particular for equipment goods, which represent one-third of total imports.

During the period from 1980 to 1995, Egypt implemented liberalization policies. In general[13], there are three main indicators of change toward liberalization: changes in tariffs and additional taxes and subsidies, changes in the non-tariff barriers to trade, and changes in the exchange rate. Consequently, in this period tariffs have undergone several changes that constitute the beginning of an efficient use of tariffs as a policy instrument: the average of both the nominal and the effective rate have declined. Egypt's law No.87 of 1996 eliminated a series

[11] Havrylyshyn, Oleh (1997), "Global Integration Strategy for the Mediterranean Countries", Washington D.C.: International Monetary Fund.
[12] Hoekman, B. and Konan, D. (1999), "Deep Integration, Non Discrimination, and Euro-Mediterranean free trade", Policy Research Working Paper No 2130, The World Bank, May 1999.
[13] Refaat, A. (1999), "New Trends in Egypt Trade Policy and Future Challenges", ECES working paper No 36, March 1999.

of taxes and fees that were formally levied on imports such as the statistical duty, subsidy and municipal tax. The production coverage of non-tariff barriers was reduced and finally, the exchange rate for the Egyptian pound was unified and devaluated.

Notwithstanding these trade reforms undertaken by the Egyptian government, measures of openness reveal two important facts: first, Egypt exhibited a comparatively low trade profile over the period 1980 to 1996. Second, the Egyptian economy has become less open and less integrated in the world economy overtime. At the same time, while Egypt has undertaken impressive unilateral trade reforms; Egyptian trade performance continues to suffer from a variety of technical and administrative non-tariff impediment.

Table 3 reveals that Egypt's trade integration in the world economy is lagging behind other south Mediterranean partner countries (SMPCs). It has the weakest performance among its competitors in the Mediterranean basin in terms of trade integration, and has experienced the worst development of exports regarding their ratio to GDP, (column1, 2, 3) compared to a positive development achieved among its competitors.

Table 3: Some Indicators of the Performance of the Egyptian Trade and Exports Compared to Other Countries

	Ratio of Exports (goods and services) to GDP (1990-95)	**Ratio of Exports (goods and services) to GDP (1995-2000)**	**Ratio of Exports (goods and services) to GDP (2000-2007)**	**Trade to GDP ratio (1990-95) (Trade Openness)**	**Trade to GDP ratio (1995-2000) (Trade Openness)**	**Trade to GDP ratio (2000-07) (Trade Openness)**
Algeria	**24.6**	**30.4**	**41.8**	**42.3**	**52.8**	**65.4**
Egypt	**24.6**	**17.4**	**25**	**55.5**	**42**	**53,5**
Morocco	**25.5**	**26.5**	**31**	**57**	**47.5**	**67.5**
Tunisia	**42**	**43.5**	**48**	**90**	**89**	**99**

Source: authors' calculations of averages based on data drawn from World Bank, World Development Indicators, 2010.

Preferential liberalization has the potential of playing a catalytic role in increasing the openness of the Egyptian economy, attracting foreign direct investment and signaling the government commitment to reform. Therefore, Egypt thought of regional economic cooperation as a way to enhance and solidify domestic reforms and as a tool to seek safe haven in response to the globalization trend.

3-b) Geographical Patterns of Trade and Protection, 1995:

The EU is a major trade partner of Egypt, accounting for 46 per cent of its exports and 39 per cent of its imports (Tables 4 and 5). The neighboring Mediterranean countries import only 14 per cent of Egyptian goods while exporting a negligible amount to Egypt. Exports to Europe are diversified: textiles are as important as oil and there are some exports of equipment goods and agricultural products. Textile exports are concentrated towards EU and NAFTA, denoting the effects of the preferential access to these markets under the multi-fiber arrangement.[14]

Table 4: Export Structure by Destination in 1995:

	EU	MED	ROW	TOTAL
Primary Products	1.8	0.8	1.2	3.9
Food Processing	0.3	0.2	0.4	0.9
Textiles	5.5	0.8	4.2	10.5
Petroleum Products	6.3	2.1	7	15.4
Heavy Industries	2.8	1.1	1.5	5.4
Other Manufactures	0.2	0.2	0.4	0.8
Tradable Services	24.3	7.3	21.5	53.0
Other Services	4.6	1.4	4	10.0
Total	45.8	13.8	40.4	100.0

Note: Percentage share of exports in total exports (Source: UNCTAD, 1997).

[14] Kheir-el-Din, H. and El-Sayed, H., (1997), "Potential Impact of a FTA with the EU on Egypt's Textile Industry," in Galal and Hoekman.

The geographical pattern is more diversified on the import side. Nearly 32 per cent of imports from EU countries are heavy industries while processed food comes mainly from the Rest of the World (ROW). The EU and the ROW are competing in Egypt for most products, in particular for equipment goods, which represent one-third of total imports. The progressive removal of tariff barriers on manufactured European imports could therefore affect principally the price of imported inputs (intermediate and capital goods). The domestic prices of imports for final consumption are expected to suffer a greater impact from a removal of tariff barriers faced by ROW products.

Table 5: Import Structure by Origin in 1995:

	EU	**MED**	**ROW**	**TOTAL**
Primary Products	2.5	0.3	10.4	13.1
Food Processing	3.0	0.1	5.9	9.0
Textiles	0.8	0.2	1.7	2.7
Petroleum Products	4.7	0.2	3.2	8.1
Heavy Industries	12.4	0.7	15.5	28.6
Other Manufactures	4.2	0.2	5.0	9.4
Tradable Services	3.0	0.2	4.5	7.7
Other Services	8.4	0.6	12.6	21.6
Total	38.9	2.5	58.7	100

Note: Percentage share of imports (excluding tariffs) in total imports (Source: UNCTAD, 1997).

3-c) Trade Costs:

In analyzing the effects of a preferential trade agreement, it is important to consider the size and the evolution of tariff barriers to trade. Tariffs indicate levels of protection and distortions within an economy. High (low) tariffs imply higher (lower) magnitude effectsof liberalization, where higher tariffs will imply that liberalizing preferentially will give a competitive edge to imports from a given destination, at the possible detriment of imports from a cheaper source. Alternatively, removing high tariffs is likely to stimulate cheap imports and hence create trade. This means that the current tariff can serve as an indicator of the possible effects of liberalization. Tariffs remain relatively high for Egypt, which suggests that the effects of preferential liberalization will be highest this country.

The benefits that a country receives from FTAs accrue from the difference between the tariffs applied under the MFN scheme and the tariffs applied to the country in question. Preference margin can be defined as: "*a weighted average tariff reduction, with trade values used as weights and the result expressed in money terms rather than a percentage tariff rate... it also indicates the extent to which the donor country was willing to forego (potential) tariff revenue by granting preferential access to its markets*."[15]

Although tariffs had been declining in Egypt before the EMP at around 20 to 25%, the import weighted average tariff is still relatively high. Tariffs on inputs are often lower than those applied to final goods, leading to effective rates of protection that are often a multiple of nominal rates[16]. With the exception of those on imports of textile products, all quantitative restrictions have been abolished, and the textile bans are scheduled to be eliminated as part of Egypt's commitments under the Uruguay Round[17].

[15]Grethe, H., Nolte, S., &Tangermann, S., (2005), "The development and future of EU agricultural trade preferences for north African and near east countries", *European Association of Agricultural Economists,* August 2005, pp.5

[16]Hoekman, B. and Djankov, S., (1997), "Effective Protection and Investment Incentives in Egypt and Jordan: Implications of Free Trade with Europe," *World Development*, 25: 281-91.

[17]Kheir-el-Din, H. and El-Sayed, H., (1997), "Potential Impact of a FTA with the EU on Egypt's Textile Industry," in Galal and Hoekman.

As tariffs and quotas have declined in importance, administrative control of the import process has become more prominent and important, such as customs clearance procedures, the enforcement of national health and safety standards, and the logistics involved in moving shipments to, through, and from ports, which impose real trade costs on the private sector, both directly and indirectly. As of 1994, many tariff rates have escalated sharply; fees for goods that are intended for retail sale were generally at least twice as large as those that applied if further processing occurred in Egypt.

4- The Objectives and Instruments of the Euro-Mediterranean Partnership:

Before going into a specific analysis of the EU Egypt relationship, it is worth outlining how the EMP's objectives and instruments have developed. The objectives of the EMP can be summarized as follows: A) Definition of a common area of peace and stability through the reinforcement of political and security dialogue. B) The construction of a zone of shared prosperity through an economic and financial partnership (EFP) and the gradual establishment of a free trade area. C) The rapprochement between people through a social, cultural, and human partnership aimed at encouraging understanding between cultures and exchange between civil societies.

In order to be able to achieve the above-mentioned objectives, there has to be some instruments to do so, which are: A) the progressive establishment of a free trade area. B) The implementation of appropriate economic cooperation. And C) a significant increase in the EUs financial assistance to its partners. The key instrument seen as furthering the objectives of development and integration in the region was, therefore, trade liberalization, supported by increased aid[18].

4-A) the Progressive Establishment of a Free Trade Area:

The economic and financial partnership (EFP) basket plays a central role in the EMP design and implementation, and the cornerstone of this basket is the creation of a Euro-Mediterranean Free Trade Area (EMFTA) between the EU and the Mediterranean partner countries (MPCs). This was based on the traditional economic wisdom that trade liberalization should increase the competitive pressure in the economy, facilitate the reallocation of

[18]Nsouli, S., (2006), The Euro-Mediterranean Partnership Ten Years On: Reassessing Readiness and Prospects, statement at Crans-Montana Forum, Monaco.

production factors from non-competitive industries to more productive ones, increase the efficiency of the economy and increase economic growth rates, and improve foreign investment flows by flourishing international exchange[19].

The EMFTA is gradually established through a network of "pluri-bilateral" Euro-Mediterranean Association Agreements. These take the traditional trade flows between the EU and the MPCs as the starting point for progressively eliminating tariff and non-tariff protection[20]. Negotiations on the Euro-Mediterranean Association Agreements are concluded and signed with all MPCs, except Syria. The EMAAs reflect the comprehensive approach of the Barcelona Process and comprise provisions that go beyond traditional WTO free trade agreement.

4-B) Economic Cooperation:

Economic Cooperation is the second instrument to achieve the EMP objectives; it aims to increase productivity and competitiveness in each MPC, and in the region as a whole, by opening communication channels and building capacities for technology transfer. Bilateral cooperation is oriented towards upgrading the MPCs infrastructure and providing support for restructuring[21]. The measures of the bilateral economic cooperation are settled in the EMAAs to support the MPC's own effort to achieve sustainable socio-economic development, through different methods such as: information exchange and technical assistance, and encouraging joint ventures.

4-C) Financial Assistance:

Financial Assistance has two-fold purposes; the first is to encourage economic transformation by creating incentives. The second is to alleviate adjustment costs. By providing these funds, the EU stresses its commitment to turn abstract EMP objectives into tangible projects. The assistance is mainly provided through the MEDA-Program[22] and the assistance of the European

[19]Brach, J., (2006), ten years after: Achievement and Challenges of the Euro-Mediterranean Economic and Financial Partnership, German Institute for Middle East Studies.

[20]-Euromed (1995): The Barcelona Declaration 28/11/1995, in http://ec.europa.eu/comm/external_relations/euromed/bd.htm (20.10.2006)

[21]Hoekman, B (1999), Free Trade Agreements in the Mediterranean: A Regional Path towards Liberalization, in: G.Joffe (ed.), Perspectives in Development-The Euro-Mediterranean Partnership, London, pp.89-104.

[22]Measures d accompagnement financiers et techniques a la reforme des structures economiques et socials dans le cadre du partenariat euro-Mediterranean.

Investment Bank (EIB). Although the initial quantitative financial support objective for 1995-99 specified in the Barcelona Declaration was not met, there has nonetheless been a significant increase in financial assistance from the EU to its Euro-Mediterranean partners.

The MEDA-Program:

Initiated in 1995, the MEDA Program is the EU's main financial instrument for the implementation of the Euro-Mediterranean Partnership and its activities. Bilateral aid under MEDA is granted to Algeria, Tunisia, Morocco, Egypt, Jordan, Syria, Lebanon, and the Palestinian Territories. The same Partners, as well as Israel and Turkey, also benefit from the MEDA regional program.

The MEDA program is used to attain five objectives: to strengthen political stability and democracy in the common area; to create an area of shared prosperity, and to support the creation of a free trade-area between the EU and the Mediterranean Partners by 2010; to create closer ties between the peoples of these countries, to help the implementation of the Association Agreements, with a particular focus on the development of the Euro-Mediterranean market; and to encourage South-South development and economic integration initiatives helping existing Association Agreement signatories to move to free trade between themselves.

All the MEDA funds are grants from the EU and do not have to be paid back. MEDA financial support generally applies to all three baskets of the EMP, but over three quarters of the funds are allocated for activities within the EFP. The MEDA program is a global fund without fixed percentages or amounts per MPC[23]. The amount that each MPC receives depends on its effort and progress, which means that the allocation of the funds is based on competition between countries, between projects in the same country, as well as between regional projects.

MEDA regulation provides two other very important details: first, beneficiaries of MEDA support do not necessarily have to be states or regions which allow immediate and decentralized support to all levels of hierarchy, and it also requires a high degree of capabilities on site to ensure equal access. Second, there is a political conditionality of MEDA funds; i.e. payments can be frozen or cancelled when the principles or details of the EFP or the political

[23]Parfitt, T. (1997): Europe’s Mediterranean Designs: an analysis of the Euromed relationship with special reference to Egypt, in Third World Quarterly.vol.18, pp.865-881.

and security partnership are violated, which stresses the interdependency of all three chapters of the EMP and reflects the comprehensive approach.

MEDA II (2000-2006) is an extensively revised version of MEDA I and more program-oriented than its predecessor. MEDA II is supplied with extended financial resources, EUR 5.350 million for the period 2000- 2006[24]. Under MEDA II much progress has been made in improving Euro-Mediterranean financial and technical cooperation, around 90 % of the resources allocated to MEDA were channeled bilaterally to the eligible Partners for bilateral funding. Another 10 % of the resources were devoted to regional activities, all Mediterranean partners and EU member states being eligible to benefit from these activities.

Lastly, with the entry into force of the Association Agreements in a growing number of Mediterranean Partners, Programs of support to the implementation of the Association Agreements (AA) are increasingly a standard feature of bilateral programs under MEDA. The programs aim at bringing the public sector of Mediterranean Partners up to standards that will enable them to fully implement the Association Agreement. The main instrument to help reach that goal is the institutional twinning between public administrations of Mediterranean partners and EU member states. However, in fact, the evidence and country experience shows that the MEDA program was unable to foster reforms sought by the partnership due to the rigidity of the implementation mechanism, the predominance of technical assistance, and the absence of performance indicators or criteria[25].

The European Investment Bank (EIB):

The EIB desire to help the Mediterranean countries accelerated their economic and social modernization realized via its financial arm in the Mediterranean, the Facility for Euro-Mediterranean Investment and Partnership (FEMIP), the financial instrument of the European Investment Bank for the European Union's 10 partner countries in the Mediterranean. The FEMIP was created in October 2002, at the request of the European Council in Barcelona, to strengthen and amplify EIB action in the Mediterranean partner countries. It is now the

[24]European Commission (2002): Communication from the Commission to the Council and the European Parliament to prepare the Meeting of Euro-Mediterranean Foreign Ministers, Valencia,22-23 April 2002, SEC(2002) 159 final.

[25]Saidi, N. (2001): Aid, Trade, Cooperation & the EU: "things must be done differently "to rescue the Euromed Partnership, ERF working paper series, paper No.0115.

reference actor in the development of the Mediterranean, with a focus on developing the local private sector and creating a favorable environment for investment.

The activities of the European Investment Bank (EIB) in the Mediterranean region are placed in the political framework of the European Union and are run in close co-operation with the European Commission and with other international financial institutions. In six years FEMIP has invested more than EUR 8.5 billion in 125 projects, supported 1,770 small and medium-sized enterprises, and dedicated nearly EUR 100m to technical assistance programs and studies[26].

5- The Expansion of inter and intraregional trade and financial relations after the EMP:

Since the EMP entered into effect, inter and intraregional trade and FDI flows have increased significantly, particularly for Egypt. The un-weighted average of EMP inter and intraregional exports in total exports increased from 3.53 per cent in 1998-2002 to 4.53 per cent in 2003–2007, while inter and intraregional imports in total imports 6.45 increased from per cent to 25.2 per cent over the same period (table 2.6). Interregional exports as a percentage of total exports increased considerably for Egypt from 5.16 to 6.15 and the share of interregional imports in total imports increased also from 12.4 percent to 22.6 percent. On the other hand, intraregional exports increased from 1.9 to 2.9 percent of total exports, and intraregional imports increased from 0.5 to 2.6 percent.

[26]European Investment Bank (2010) available at http://www.eib.org/about/press/2009/2009-139-reunion-ministerielle-de-la-femip-et-partenariat-renforce-femip-femise.htm?lang=-en, (28.3.2010).

Table 6: INTRA and INTERREGIONAL TRADE OF EMP COUNTRIES, 1998-2002 AND 2003–2007 *(Annual average in per cent)*

	Exports		*Imports*	
	1998-2002	**2003–2007**	**1998-2002**	**2003–2007**
INTERREGIONAL trade (Egypt and the EU)	*5.16*	*6.15*	*12.4*	*22.6*
INTRAREGIONAL trade (Egypt and the AAMCs[27]	*1.9*	*2.9*	*0.5*	*2.6*
EMP (Inter-intraregional trade) (un-weighted average)	*3.53*	*4.53*	*6.45*	*25.2*

Source: authors' calculations, based on IMF, *Direction of Trade Statistics* database.

Egypt's total exports grew at an average rate of 12 percent during the period 1998-2002 compared to 28 per cent between 2003 and 2007. The share of Egypt's exports in total world trade increased from 0.067 per cent in 1995 to 0.116 percent in 2007. Total Imports decrease at an average rate of 8 percent during the period 1998-2002 compared to 28 per cent increase between 2003 and 2007(except for a9 percent decrease between years 2005 and 2006). The share of Egypt's imports in total world trade decreased from 0.225 percent in 1995 to 0.192 percent in 2007[28]. As a result, overall, Egypt's trade balance has been in deficit since 1995.

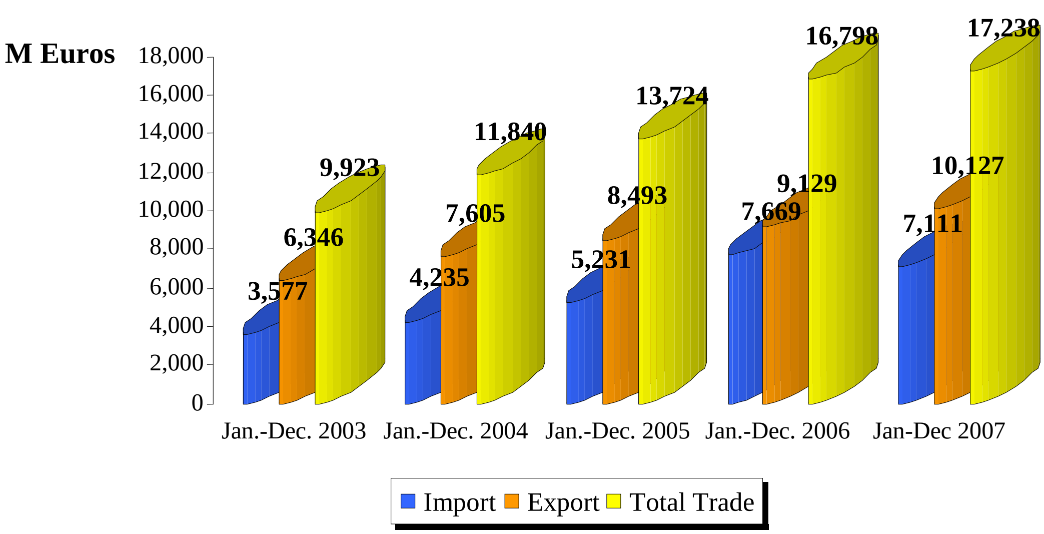
[27]Aghadir Agreement Member countries.
[28]UNCTAD Handbook of Statistics database, 2008.

EU-Egypt bilateral trade has been steadily increasing: from € 11.8 billion in 2004 to € 20.8 billion in 2008 compared to an average of €10 billion, before the entry into force of the Association Agreement. The enlarged EU is the first trade partner for Egypt and represents 34% of Egypt's total trade with the world. In 2008, Egypt had a trade deficit of € 4 billion, vis-à-vis the EU. The sizeable trade deficit is not per se a worrying signal. It may be seen as an indication of the vitality of the Egyptian economy.

In 2008, the main products exchanged between Egypt and the EU remain machinery and transport equipment with, mineral fuels (crude oil, gas, etc.), manufactured goods, chemicals and agricultural products. In 2008, bilateral exchanges of agricultural products amounted to € 1.3 billion with € 554 Million of EU imports from Egypt. This follows the upward trend from previous years[29].

The following figure shows the evolution of EU Egypt trade relations for the period 2003-2007, it reveals that both EU exports and imports to Egypt are increasing, although exports are increasing at a decreasing rate, while imports is increasing at an increasing rate, except for 2007, when EU imports show a slight decrease.

Figure 1: EU27 Egypt Trade:



Source: Eurostat Yearbook (2007)

[29] Euro stat Statistical books, Euro-Mediterranean statistics, yearbook 2009.

6- Egypt Economic and social performance after the EMP:

Egypt's strong export growth and FDI inflows under EMP have not translated into similarly strong economic and social progress. Indeed, the outcome of EMP has been disappointing with regard to key macroeconomic variables and social indicators.

Since EMP came into effect, Egyptian GDP growth has been unstable. However, from a medium-term perspective, the launching of EMP improved the Egyptian growth trend, but it did not help to narrow the gap between Egyptian per capita GDP and that of the other member countries. Regarding growth, Egypt's average post-EMP GDP growth rate of 4.5 per cent in 1995–2007 was above that of 1990–1994. The income gap with the European Union is still as wide as before joining the EMP, however, it shows a slight decrease in this gap, the Egyptian per capita GDP was 7 per cent that of the EU in 1995; that ratio increased to 8 per cent in 2008. The share of exports in Egyptian's GDP jumped from 23 per cent in 1994 to 33 per cent in 2008. The share of imports in GDP expanded at a similar pace, from 28 per cent in 1994 to 39 per cent in 2008.

FDI inflows as a percentage of GDP are on average higher than before EMP. However, this has not translated into an increased share of gross fixed capital formation (GFCF) in GDP, which has remained at around 20 per cent. A dynamic nexus between exports, domestic investment and income growth that would allow Egypt to rapidly narrow the income gap with its developed EMP partners thus remains to be established.

There is no evidence of accelerated change in the structure of production of the Egyptian economy since 1995.The relative share of industrial value added in GDP increased slightly between 1995 and 2007, while that of services decreased slightly, and the same applies for agriculture (world development indicators). Inflation rose to more than 10 per cent in 1995. Macroeconomic policy was successful in cutting inflation without new shock therapies until 2007, when it started to rise again (2007:12%, 2008:13%).

The high unemployment rates in MPCs and the insufficient number of job created are related to the increase in the population growth rate, the mismatch between the education system and the needs of the labor market, the low level of productivity, the decline in investment, and the low level of technology content of goods and services. To face the challenge of employment in the Euro Mediterranean region, long run determined growth policies to create sufficient number of jobs to absorb the increase in the labor force are required, along with short run active employment policies to guarantee the right to work.

However, the EMP has not contributed to such policies, employment and the right to work have been considered as a byproduct of trade liberalization and structural reform, therefore, in the context of the EMP, no project has been designed to strengthen and support the national employment policies of the MPCs, despite the evident shortcoming of these policies[30], nevertheless, the new European Neighborhood policy opens up new opportunities for integrating social affairs such as employment.

Employment creation is a huge challenge for Egypt, Partial evidence shows that total employment has been the same since 1995 (around 42% of 15+ population), while the unemployment rate has been decreasing at a fairly low level: at 11 per cent in 1995 and 9 per cent in 2008. However, the majority of new jobs created were in the service sector (47% in 2006), whereas employment in the agriculture sector is 31%. Moreover, a considerable proportion of the employment was created in industry sector (22% of total employment)[31].

Perhaps the greatest disappointment with EMP has been that it has failed to stem migration from Egypt to the European Union, particularly illegal migration, which carries high social costs. Since the standard of living and employment opportunities of the Egyptian people have not significantly improved and the wage gaps with the European Union have not narrowed, incentives for migration remain strong.

[30]Martin, I.,(2007),"THE EURO-MEDITERRANEAN PARTNERSHIP AND EMPLOYMENT", comparative reports on Morocco, Algeria, Tunisia, Egypt, Jordan, Palestine, Lebanon and Syria, Forum Syndical Euromed, Euromed Trade union forum.
[31]All the above mentioned data are available at the world data bank available at: http://databank.worldbank.org/.

7- Conclusion:

To sum up, while it is difficult to identify precise causalities between EMP and the structural and macroeconomic trends in Egypt over the past 15 years, it can nevertheless be concluded that, since the creation of EMP, Egypt has witnessed spectacular expansion in trade and FDI flows and relative macroeconomic stabilization.

However, EMP has produced disappointing results in terms of growth and development. In spite of its privileged access to one of the largest and most dynamic markets in the industrial world and large FDI inflows, the Egyptian economy has so far not been able to establish a dynamic process of industrialization and structural change. The Egyptian experience in EMP confirms that, in order to strengthen capital accumulation to expand productive capacities, technological upgrading and growth of domestic value added in manufacturing, regional cooperation should not be limited to the dismantling of barriers to trade and investment flows.

The rules associated with regional cooperation agreements should not prevent the poorer countries from pursuing a proactive industrial policy. Increasing trade and FDI flows should not be considered an end in themselves; rather, they should be a means to faster growth and development when combined with appropriate policies that favor fixed capital formation and technological upgrading, including at the regional level.

The limited progress in the first decade of the EMP in expanding trade, fostering investment in the region, and accelerating the convergence in living standards has four key explanatory factors: First, the slowness in moving ahead with association agreements, and the inclusion of long transition periods before trade liberalization bites on Euro-Mediterranean partner countries. Second, the degree of economic integration with the EU that was initially on offer under the EMP was limited to free trade and even in this area there was no timetable to liberalize trade in agriculture or fisheries, which are important sectors in many of the Euro-Mediterranean countries, third, there was no explicit mechanism within the Barcelona Process to motivate structural reform in partner countries[32].

[32]See(Nsouli, 2006)

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Appendix:

Table 1: Egypt- European Union and Egypt –Jordan Trade Relations:

	European Union			Jordan		
Year	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance
1995	1655.800	4923.260	-3267.460	30.912	10.239	20.673
1996	1683.460	5154.710	-3471.250	44.627	15.074	29.553
1997	1719.030	5503.730	-3784.700	26.125	16.637	9.488
1998	1260.060	6472.140	-5212.080	25.399	18.554	6.845
1999	1289.130	6196.250	-4907.120	21.461	23.514	-2.053
2000	3054.600	8497.920	-5443.320	*39.5667*	*26.2506*	13.316
2001	1367.260	4101.720	-2734.460	25.197	21.238	3.960
2002	1357.190	3702.310	-2345.120	96.633	26.784	69.850
2003	2125.390	3162.370	-1036.980	96.387	30.284	66.103
2004	2737.520	3594.860	-857.340	157.100	28.128	128.972
2005	3626.960	4759.710	-1132.750	196.349	72.638	123.711
2006	4648.870	4788.960	-140.090	249.222	85.241	163.981
2007	4699.840	6207.510	-1507.670	302.159	65.999	236.160
2008	9274.380	14320.100	-5045.720	719.151	107.990	611.161
2009	6795.840	14260.700	-7464.860	934.137	72.870	861.267

Table 2: Egypt -Tunisia and Egypt – Morocco Trade Relations:

	Tunisia			Morocco		
Year	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance
1995	27.452	12.383	15.069	15.163	4.165	10.997
1996	24.129	19.870	4.258	8.079	6.758	1.320
1997	18.800	13.995	4.805	11.353	6.912	4.441
1998	19.970	11.670	8.299	12.883	5.957	6.926
1999	20.280	16.108	4.172	13.348	6.679	6.670
2000	*36.2637*	*37.5968*	-1.333	*38.7434*	*14.7582*	23.985
2001	21.689	15.509	6.181	25.672	20.787	4.886
2002	17.553	12.151	5.402	30.896	8.134	22.761
2003	18.890	9.823	9.066	84.225	8.605	75.620
2004	18.933	6.807	12.126	42.615	8.026	34.589
2005	39.513	12.377	27.136	85.930	10.950	74.980
2006	35.570	30.173	5.398	84.777	13.985	70.792
2007	126.497	15.327	111.170	168.798	23.152	145.646
2008	220.199	93.645	126.554	340.151	38.304	301.848
2009	253.642	47.884	205.758	358.667	44.365	314.302